

NEW APPLICATION



0000033770

RECEIVED

2000 NOV 13 P 4: 08

AZ CORP COMMISSION
DOCUMENT CONTROL

FENNEMORE CRAIG
A Professional Corporation
Norman D. James (No. 006901)
Jay L. Shapiro (No. 014650)
3003 North Central Avenue
Suite 2600
Phoenix, Arizona 85012-2913
Telephone: (602) 916-5000

Attorneys for Arizona-American
Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR AUTHORITY TO
ISSUE SHORT-TERM AND LONG-TERM
DEBT INSTRUMENTS IN CONNECTION
WITH FINANCING THE ACQUISITION OF
THE WATER AND WASTEWATER
UTILITY PLANT AND ASSETS OF
CITIZENS COMMUNICATIONS, INC.

Docket No. W-01303A-00-0929
APPLICATION (FINANCING)

Pursuant to A.R.S. §§ 40-301 and 40-302, Arizona-American Water Company (formerly Paradise Valley Water Company), an Arizona corporation ("Arizona-American"), respectfully seeks authority from the Arizona Corporation Commission (the "Commission") to: (1) issue and deliver short-term debt instruments in an amount not to exceed \$180,000,000, which amount exceeds seven percent (7%) of total capitalization, to be repaid over a period of no more than twelve (12) months at an interest rate of no more than 50 basis points over the LIBOR (London InterBank Offered Rate); (2) issue and deliver long-term debt instruments in an amount not to exceed \$180,000,000 to be repaid over a period up to 30 years at an interest rate of no more than 250 basis points over the treasury bond rate per annum; and (3) assume certain industrial development revenue bonds in the approximate amount of \$10,600,000 or, alternatively, issue and deliver long-term debt instruments reflecting the assumption of said bonds (the "Acquisition Financing"). Authority for the Acquisition Financing is sought for the sole purpose of financing

1 the acquisition of the water and wastewater utility plant and assets of Citizens Communications
2 Company ("Citizens") in Arizona by Arizona-American. In support of this Application,
3 Arizona-American states as follows:

4 **A. General Background.**

5 1. Arizona-American is an Arizona corporation engaged in providing water for
6 public purposes within portions of the Town of Paradise Valley, the City of Scottsdale and
7 certain unincorporated areas in Maricopa County, Arizona. Arizona-American holds a certificate
8 of public convenience and necessity ("CC&N"), which was first granted in Decision No. 19729
9 (June 28, 1950). Numerous extensions of this CC&N have been granted by the Commission.
10 Arizona-American presently provides water service to approximately 4,600 customers, and is
11 currently a Class B water utility (annual revenue between \$1,000,000 and \$5,000,000). Its
12 current rates and charges for water utility service were approved in Decision No. 61831 (July 20,
13 1999).

14 2. Attached at Tab A are copies of Arizona-American's unadjusted balance sheet
15 and income statement for the 12-month period ending September 30, 2000. Arizona-American
16 currently has a capital structure consisting of approximately 53% debt and 47% common equity.
17 The current equity component, \$6,386,003, consists of common stock held by the parent of
18 Arizona-American, American Water Works Company, Inc. ("AWW"), paid-in capital and
19 retained earnings. The debt component is comprised of long-term debt, including \$4,500,000
20 payable to CoBank, and short-term debt (line of credit) in the amount of approximately
21 \$2,320,000.¹

22 3. Arizona-American's local business office is located at 6250 North Casa Blanca
23 Drive, Paradise Valley, Arizona, 85253. Its mailing address is P. O. Box 158, Scottsdale,

24

¹ On May 11, 2000, Arizona-American filed an application to re-establish its line of credit,
25 which is used for capital projects, in the sum of \$3,600,000. That application is presently
26 pending in Docket No. W-01303A-00-327. A report was docketed on October 31, 2000, by the
Utilities Division recommending approval of the application.

1 Arizona, 85252, and its telephone number is (602) 948-5410. Arizona-American's Manager is
2 James M. Campbell, who is currently responsible for supervising the local operations of the
3 company.

4 4. In addition to counsel herein undersigned, the persons responsible for overseeing
5 and directing the conduct of this Financing Application are:

6 David P. Stephenson
7 Assistant Treasurer
8 Arizona-American Water Co.
9 880 Kuhn Drive
Chula Vista, CA 91914
Tel. No. 619-656-2436
Fax No. 619-656-2406

10 All requests for information should be directed to Mr. Stephenson's attention, at the address set
11 forth above, with a copy to the undersigned counsel for Arizona-American.

12 **B. Acquisition of Citizens' Water and Wastewater Assets.**

13 5. On October 15, 1999, Citizens, together with each of its wholly-owned
14 subsidiaries engaged in furnishing water and wastewater service in Arizona, and Arizona-
15 American entered into an Asset Purchase Agreement ("Agreement"). A copy of the Agreement
16 has previously been provided to the Utilities Division ("Staff") in connection with the
17 application described in the following paragraph. The Agreement sets forth the terms and
18 conditions under which Arizona-American will purchase all of Citizens' water and wastewater
19 utility plant, real and personal property, and other assets used for the provision of water and
20 wastewater service in Arizona, and Citizens' rights under its CC&Ns and associated service
21 rights held by Citizens in Arizona.

22 6. On March 24, 2000, Citizens and Arizona-American filed a Joint Application
23 with the Commission pursuant to A.R.S. § 40-285 requesting authority for the transfer of
24 Citizens' water and wastewater utility plant, assets and CC&Ns in accordance with the
25 Agreement. This application is pending before the Commission in Docket No. W-01032A-00-
26 192, et seq. A hearing was conducted concerning the application on September 27, 2000, before

1 the Commission's Assistant Chief Administrative Law Judge. A decision on the application is
2 expected within the next 60 days.

3 7. The purchase price to be paid by Arizona-American is \$231,310,000 subject to
4 adjustment at closing. The purchase price includes the assumption of \$10,635,000 of long-term
5 debt in the form of outstanding industrial development revenue bonds and related loan
6 agreements ("IDRBs"). Pursuant to the Agreement, within 90 days after the closing, a post-
7 closing adjustment to the purchase price will be made reflecting the recorded financial position at
8 the time of closing. Put simply, the purchase price will be adjusted based on changes (increases
9 or decreases) in Citizens Statement of Net Assets after June 30, 1999. Based on growth
10 occurring in certain of Citizens' service territories, Arizona-American anticipates that the actual
11 purchase price may be as high as \$300,000,000.

12 8. Arizona-American intends to modify its capital structure in connection with this
13 transaction, as more particularly described below. Arizona-American's consolidated capital
14 structure will ultimately consist of approximately 60% debt and 40% common equity, as
15 discussed below.

16 **C. American Water Capital Corp.**

17 9. The lender will be American Water Capital Corp. ("AWCC"), which is a
18 Delaware corporation and a wholly owned subsidiary of AWW, Arizona-American's parent.
19 AWCC was formed in June 2000 to serve as the primary funding vehicle for AWW and its utility
20 subsidiaries.

21 10. In the past, Arizona-American has obtained its own financing for short-term
22 capital needs through bank borrowings and lines of credit, while obtaining long-term financing
23 through the issuance of long-term debt to lenders such as CoBank. However, changes in the
24 financial markets present an opportunity for AWW and each of its subsidiaries, including
25 Arizona-American, to borrow on an unsecured basis at rates prevailing in the public market
26 while minimizing borrowing expenses. AWW's operating subsidiaries serve more than 10

1 million people in 23 states. By combining the short and long-term debt requirements of AWW's
2 utility subsidiaries, AWCC is able to issue bonds, commercial paper and other securities in the
3 public markets. This combined borrowing power results in lower transaction costs and increased
4 borrowing efficiency.

5 11. The AWCC financing program is specifically designed to enhance the ability of
6 every AWW utility subsidiary, including Arizona-American, to provide for its own financing
7 needs on terms superior to those that would be otherwise available from conventional lenders.
8 Under this program, Arizona-American will be able to obtain loan proceeds for all purposes,
9 including repayment of existing long-term debt, refinancing short-term debt, reimbursing its
10 treasury for capital expenditures, and providing funds for construction and other capital projects,
11 as well as financing the acquisition of other utility systems.

12 12. AWCC will obtain its funds primarily by borrowing from two sources. First, it
13 has arranged for a syndicated bank credit line in the amount of \$600,000,000 to provide short-
14 term loans with a maturity of less than one year to AWW and its utility subsidiaries. Second,
15 AWCC will register its own debt securities for sale in the public market by filing a "shelf
16 registration" with the U.S. Securities and Exchange Commission. This will allow AWCC
17 flexibility to issue debt instruments and enter into other financing arrangements and relationships
18 based on changing conditions in the capital markets, enabling AWCC to obtain capital at reduced
19 costs.

20 13. Arizona-American has entered into a Financial Services Agreement with AWCC,
21 a true copy of which is attached at Tab B. This agreement describes the services that will be
22 provided by AWCC (Appendix I). Also attached to the Financial Services Agreement as
23 Exhibits A and B are proposed forms of promissory notes for short-term and long-term
24 borrowings, respectively. The promissory notes to be issued by Arizona-American in connection
25 with the indebtedness for which approval is sought herein will be substantially similar to those
26 notes.

1 **D. The Specific Terms of the Proposed Debt.**

2 14. The material terms of the short-term debt to be issued by Arizona-American to
3 AWCC are as follows: The amount of short-term debt will not exceed \$180,000,000 based on a
4 60% debt ratio and \$300,000,000 possible purchase price, with the total, actual amount to be
5 borrowed to be based on the final adjusted purchase price for Citizens' water and wastewater
6 assets, less the portion of the purchase price financed by AWW's infusion of equity (paid in
7 capital). This short-term debt will have an interest rate no greater than 50 basis points over
8 LIBOR. The short-term debt will be refinanced through AWCC and converted to long-term debt
9 within 12 months from the date on which the acquisition of Citizen's water and wastewater
10 assets has closed and ownership of such assets has been transferred to Arizona-American. The
11 amount of long-term debt will be equal to the amount of short-term financing actually required to
12 complete the acquisition. The terms of the long-term debt will be determined in the public debt
13 market at the time of the refinancing. The interest rate will not exceed 250 basis points over
14 treasury bonds of similar maturities.

15 15. In order to simplify the assumption of the Citizens' IDRBS, the principal amount
16 of which totals approximately \$10,600,000, AWCC may be utilized as the assuming entity. The
17 primary advantage resulting from proceeding in this manner is that AWCC is rated by
18 investment services while Arizona-American, because of its presently small size and limited
19 revenues, is not. If AWCC assumes the IDRBS, Arizona-American would issue an additional,
20 unsecured promissory note payable to AWCC. The material terms of such note (i.e., interest
21 rate, repayment term) would mirror the material terms of the IDRBS, and contain no additional
22 costs or charges. Consequently, the low-cost debt reflected by the IDRBS would be included in
23 Arizona-American's capital structure, lowering Arizona-American's cost of capital, regardless of
24 whether the IDRBS are directly assumed by Arizona-American.

25 16. As stated, Arizona-American's goal is to achieve a capital structure consisting of
26 approximately 60% debt and 40% equity. Consequently, approximately 40% of the purchase

1 price for Citizens' water and wastewater assets will be financed by an infusion of paid-in capital
2 provided by AWW. This will result in a capital structure following the closing comprised of
3 55% to 60% debt and 45% to 40% equity. Arizona-American intends to maintain this capital
4 structure, absent substantial changes in the financial market or other circumstances, during the
5 foreseeable future.

6 17. Attached hereto at Tab C are proforma balance sheets and income statements for
7 years 2000 through 2004, based on Arizona-American's projections for the combined Arizona-
8 American and Citizens' water and wastewater systems and operations in Arizona. Although
9 Arizona-American's capital structure will contain slightly more debt than Citizens' current
10 capital structure, the projected revenues and operating income, combined with greater operating
11 efficiencies and reduced borrowing costs, will allow Arizona-American to meet debt service
12 requirements with an adequate margin of safety.

13 18. Arizona-American's Board of Directors has approved, by resolution, all of the
14 Acquisition Financing described hereinabove. A copy of the resolution is attached hereto at Tab
15 D.

16 19. Arizona-American will publish a notice of this Application in The Arizona
17 Republic, which is a newspaper of general circulation throughout the state, within the next 30
18 days. Thereafter, Arizona-American will file a proof of publication or other evidence provided
19 by the newspaper showing the date on which the notice was published and a true copy of the
20 notice as published.

21 20. Arizona-American will file true and correct copies of all promissory notes and
22 other debt instruments issued to AWCC with the Commission or before 30 days from the date of
23 issuance.

24 Based on the foregoing, Arizona-American respectfully requests that the Commission
25 issue its order authorizing Arizona-American to:
26

1 A. Incur short-term indebtedness in an amount not to exceed \$180,000,000 on the
2 terms set forth hereinabove;

3 B. Incur long-term indebtedness in an amount sufficient to refinance the short-term
4 debt within 12 months of the transfer of Citizens' water and wastewater assets, on the terms set
5 forth hereinabove;

6 C. To directly assume Citizens' IDRBS, in the approximate amount of \$10,600,000
7 or, in the alternative, to incur long-term indebtedness and to issue a promissory note payable to
8 AWCC in consideration for AWCC's assumption of the IDRBS on terms that are equivalent to
9 the material terms of the IDRBS;

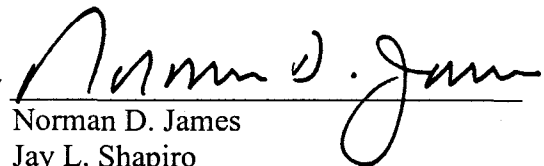
10 D. To issue and deliver promissory notes and other instruments evidencing said
11 short-term and long-term indebtedness to AWCC, consistent with the foregoing; and

12 E. For such other and further relief as may be appropriate under the circumstances
13 herein.

14 RESPECTFULLY SUBMITTED this 13th day of November, 2000.

15 FENNEMORE CRAIG

16
17 By



18 Norman D. James
19 Jay L. Shapiro
20 3003 North Central Avenue
21 Suite 2600
22 Phoenix, AZ 85012
23 Attorneys for Applicant
24 Arizona-American Water Company
25
26

1 An original and 10 copies of the
2 foregoing were delivered this
3 31st day of November, 2000, to:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, AZ 85007

5 A copy of the foregoing
6 was delivered this 31st day of
7 November, 2000, to:

7 Deborah R. Scott, Director
8 Utilities Division
9 Arizona Corporation Commission
10 1200 West Washington
11 Phoenix, AZ 85007

10 Karen Nally
11 Assistant Chief Administrative
12 Law Judge
13 Hearing Division
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, AZ 85007

14 Lyn A. Farmer, Chief Counsel
15 Teena Wolfe, Attorney
16 Legal Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, AZ 85007

18 Linda A. Jaress
19 Acting Chief
20 Accounting and Rates Section
21 Arizona Corporation Commission
22 1200 West Washington
23 Phoenix, AZ 85007

22 By: Mary A. House
23
24

25 1028511.2
26

A

For the Period Ending September 30, 2000

Arizona-American Water Co.

	September Current Year	September Prior Year

ASSETS		
Utility plant	27,449,258	26,558,310
Construction work in progress	560,841	100,395
Accumulated depreciation	5,096,471CR	4,130,544CR
Utility plant acquisition adjustments		
Other utility plant adjustments		

Net Utility Plant	- 22,913,628	22,528,161

Nonutility property	90,844	648,999

Other investments		

Current assets		
Cash and cash equivalents	43,794	127,115
Temp invest-at cost plus accr int		
Customer accounts receivable	451,858	256,839
Allowance for uncollectible accts	304CR	203CR
Unbilled revenues	178,200	178,900
Federal income tax refund		24,782
Miscellaneous receivables	145,345	16,769
Materials & supplies-at avg cost	45,063	31,435
Other	72,368	47,242

	- 936,324	682,879

Deferred Debits		
Debt and preferred stock expense	48,714	55,897
Expense of rate proceedings	25,000	54,847
Preliminary survey & investigation	4,553	
Reg asset-inc tax recoverable	86,007	78,607
Other	1,343,819	878,730

	- 1,508,093	1,068,081

Total Assets	25,448,889	24,928,120
=====		
CAPITAL AND LIABILITIES		
Common stock	522,880	522,880
Paid-in capital	3,580,070	3,580,070
Retained earnings	2,283,053	2,150,647

Total common equity	6,386,003	6,253,597
Preferred Stock		
Long term debt	4,747,567	4,759,970

Total capitalization	11,133,570	11,013,567

Current liabilities		
Bank debt-pending issuance of secur	2,319,592	1,810,000
Current portion of long-term debt	12,403	11,631
Accounts payable	122,736	5,593
Taxes accrued	229,575	205,510
Interest accrued	53,316	66,607
Customer deposits	198	545
Dividends declared		
Other	695,408	719,838

	- 3,433,228	2,819,724

Deferred credits		
Customer advances for construction	249,896	246,306
Deferred income taxes	1,297,654	1,085,180
Deferred investment tax credits	87,076	90,796
Reg liab-inc tax refundable	468,406	499,532
Other	167,594	141,235

	- 2,270,626	2,063,049

Contributions in aid of construction	8,611,467	9,031,780

	- 25,448,891	24,928,120

For the Period Ending September 30, 2000

Arizona-American Water Co.

DESCRIPTION	ACTUAL	BUDGET	VARIANCE	PREVIOUS	ANNUAL FORECAST
OPERATING REVENUES					
WATER	3,919,368	3,642,683	276,685	3,308,103	4,750,753
SEWER					
OTHER	351,875	209,916	141,959	260,934	270,897
MANAGEMENT					
TOTAL	4,271,243	3,852,599	418,644	3,569,037	5,021,650
OPERATION EXPENSE					
LABOR	381,021	359,036	21,985	408,858	467,944
PURCHASED WATER	4,737		4,737	4,890	
FUEL AND POWER	876,241	806,289	69,952	813,259	1,041,016
CHEMICALS	12,476	13,004	528CR	19,056	18,498
WASTE DISPOSAL					
MANAGEMENT FEES	137,239	100,529	36,710	110,639	137,429
GROUP INSURANCE	116,654	133,701	17,047CR	155,142CR	178,450
PENSIONS					
REGULATORY EXPENSE	22,545	21,251	1,294	18,986	28,313
INSURANCE, OTHER THAN GROUP	29,429	14,319	15,110	13,620	19,092
CUSTOMER ACCOUNTING	79,695	82,248	2,553CR	65,561	111,794
RENTS	19,042	17,808	1,234	25,900	17,808
GENERAL OFFICE EXPENSE	51,855	45,637	6,218	60,217	55,757
MISCELLANEOUS	270,348	252,088	18,260	269,688	333,508
TOTAL	2,001,282	1,845,910	155,372	1,655,532	2,409,609
MAINTENANCE EXPENSE					
OTHER	148,204	144,859	3,345	178,037	207,447
TOTAL	148,204	144,859	3,345	178,037	207,447
DEPRECIATION	436,535	423,179	13,356	357,017	565,875
AMORTIZATION	48,812	48,609	203	15,433	64,812
GENERAL TAXES	223,700	177,408	46,292	182,172	234,302
STATE INCOME TAXES	83,692	67,077	16,615	72,656	84,439
FEDERAL INCOME TAXES	331,917	244,248	87,669	271,334	305,550
TAX SAVINGS RE ACQ. ADJ.					
TOTAL OPERATING EXPENSES	3,274,142	2,951,290	322,852	2,732,181	3,872,034
UTILITY OPERATING INCOME	997,101	901,309	95,792	836,856	1,149,616
OTHER INCOME AND DEDUCTIONS					
NONOPERATING RENTAL INCOME					6,000
DIVIDEND INCOME - COMMON					
DIVIDEND INCOME - COMMON					
INTEREST INCOME				536	29
AFUDC EQUITY	11,626	4,373	7,253	13,881	13,460
M&J AND MISCELLANEOUS INCOME				208	
GAIN (LOSS) ON DISPOSITION					
TOTAL OTHER INCOME 36-44	11,626	4,373	7,253	14,625	19,489
MISCELLANEOUS AMORTIZATION					
TAX SAVINGS RE ACQ. ADJ.					
MISCELLANEOUS OTHER DEDUCTIO	252,964	20,446	232,518	68,658	31,424
GENERAL TAXES					
STATE INCOME TAXES	19,662CR	1,636CR	18,026CR	5,284CR	2,032CR
FEDERAL INCOME TAXES	79,140CR	6,584CR	72,556CR	21,266CR	8,177CR
TOTAL OTHER DEDUCTIONS 46-51	154,162	12,226	141,936	42,108	21,215
TOTAL OTHER INCOME, NET 45LESS 52	142,536CR	7,853CR	134,683CR	27,483CR	1,726CR
INCOME BEF. INT. CHGS. 34 PLUS 53	854,565	893,456	38,891CR	809,373	1,147,890
INTEREST CHARGES					
INTEREST ON LONG-TERM DEBT	252,738	253,737	999CR	249,940	338,316
AMORTIZATION OF DEBT EXPENSE DEBT	4,616	4,302	314	4,728	5,736
INTEREST ON SHORT TERM BANK DEBT	65,934	124,058	58,124CR	61,595	164,694
OTHER INTEREST EXPENSE	23,927	135	23,792	57	180
AFUDC DEBT	6,320CR	3,685CR	2,635CR	7,532CR	11,347CR
TOTAL 56 - 60	340,895	378,547	37,652CR	308,788	497,579
NET INCOME 54 LESS 61	513,670	514,909	1,239CR	500,585	650,311
PREFERRED DIVIDENDS					
NET INCOME TO COMMON STOCK	513,670	514,909	1,239CR	500,585	650,311

B

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of June 15, 2000, by and between Arizona-American Water Company (the "Company") and American Water Capital Corp. ("AWCC").

B A C K G R O U N D

The Company currently performs its own financial services.

However, the Company has determined that it can obtain these services more efficiently through the consolidation of certain necessary management and staff functions with those performed for other entities that may enter into agreement with AWCC substantially similar to this one ("Co-Participants").

AWCC is dedicated to performing such consolidated functions.

Accordingly, the parties have determined to enter into this Agreement for the provision of financial services by AWCC to the Company and for the proper determination and allocation of the costs of providing such services.

Therefore, the parties agree as follows:

A G R E E M E N T

1. Services. AWCC will provide, either directly or through arrangements with third parties for the benefit of the Company, such financial services as the Company and AWCC may from time to time agree, including but not limited to those more fully described in Appendix I attached to this Agreement.

2. Costs. In consideration of the provision of the services contemplated by paragraph 1, the Company agrees to pay AWCC a portion of the costs and appropriate overhead incurred by AWCC in providing those services, as follows. The costs incurred by AWCC in connection with its bank credit lines and short-term public borrowings will be divided among the Co-Participants in proportion to the maximum principal amount that each Co-Participant requests be made available to it during the course of a year. The costs incurred by AWCC in connection with each long-term borrowing by AWCC will be divided among each Co-Participant in proportion to the principal amount of that borrowing that is loaned to that Co-Participant. AWCC's overhead will be allocated among the Co-Participants in the same proportion as each Co-Participant's long-term and maximum, requested short-term borrowings and investments in a calendar year bear to all of the long and maximum short-term borrowings and investments by all Co-Participants during the same year.

3. Statements. AWCC will prepare and deliver to the Company monthly statements of the services provided by AWCC and amounts payable to AWCC, giving effect to

all the provisions of this Agreement. The Company shall pay the net amount shown on its statement within thirty (30) days after the billing date.

4. Inspection. Upon reasonable notice, AWCC will make available to the Company for its inspection AWCC's books, records, bills, accounts and any other documents which describe or support the costs allocated to the Company under this Agreement.

5. Obligations Not Joint. AWCC and the Company expressly agree: (a) that the obligations of the Company and each Co-Participant to AWCC are several and not joint; (b) that the Company will not be responsible to any Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by the Company to AWCC under this Agreement or a Note in the form attached to this Agreement; and (c) that no Co-Participant will be responsible to the Company, to any other Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by that Co-Participant to AWCC under any agreement substantially similar to this Agreement or under any Note attached to that other agreement. AWCC covenants and agrees that it will require, as a condition to its entering into any such other agreement with a Co-Participant, that such other agreement contains the same provision as that contained in the immediately preceding sentence.

6. Notes. The Company's borrowings under this Agreement will be evidenced by one or more promissory notes in the form of Exhibit A or Exhibit B attached to this Agreement.

7. Non-Exclusivity. Nothing in this Agreement prohibits or restricts the Company from borrowing from third parties, or obtaining services described in this Agreement from third parties, whenever and on whatever terms it deems appropriate.

8. Effectiveness. This Agreement shall be effective as of June 30, 2000, provided that, if prior approval by the regulatory commission of any jurisdiction is required before this Agreement may become effective as to the Company, or before AWCC may provide a particular service hereunder to the Company, this Agreement shall not be effective as to the Company or as to that service, as the case may be, unless and until the required approval has been obtained. Unless and until this Agreement becomes effective as to the Company in whole or in part, the Company shall not be entitled to the benefits of, nor shall it have any rights or duties under, this Agreement. This Agreement may be amended or rescinded only by written instrument signed by the Company and AWCC.

9. Termination. The Company may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to AWCC; and (b) AWCC may terminate this Agreement by giving ninety (90) days prior written notice of such termination to the Company. Termination of this Agreement will not affect: (a) the Company's obligations under any Promissory Notes; (b) any party's obligations with respect to any amounts owing under Sections 2 and 3 of this Agreement (including such amounts attributable to obligations of any terminating party under any Promissory Notes that remain outstanding after this Agreement is terminated as to that party); or (c) AWCC's obligations to repay any investments made by a Company pursuant to Appendix I.

10. Copies. This Agreement may be executed by the parties in one or more copies and each executed copy shall be considered an original.

In witness of the foregoing, each of the Company and AWCC has caused its respective corporate seal to be affixed to this Agreement and has caused this Agreement to be signed on its behalf by its duly authorized officers.

ATTEST:

By: *Jan S. Driscoll*
JAN S. DRISCOLL, Secretary

ARIZONA-AMERICAN WATER COMPANY

By: *Ted Jones Jr*
TED JONES, Jr., President

ATTEST:

By: *W. Timothy Pohl*
Title: W. Timothy Pohl
Vice President and Secretary

AMERICAN WATER CAPITAL CORP.

By: *Joseph F. Hartnett Jr*
Name and Title: Joseph F. Hartnett, Jr.
Vice President and Treasurer

APPENDIX I

DESCRIPTION OF FINANCIAL SERVICES

Set forth below is a list of the services which AWCC agrees to provide to the Company upon its request pursuant to the Agreement to which this Appendix is attached.

1. Short-Term Loans. AWCC will provide Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached to this Agreement as Exhibit A.

2. Long-Term Borrowings. AWCC will provide loans other than Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached hereto as Exhibit B.

3. Cash Management. Cash not required by the Company to pay its daily disbursements or to pay when due the principal of and interest on, the Company's borrowings from AWCC other than Short-Term Loans will be used by AWCC first to reduce the outstanding principal balance of the Company's Short-Term Loans owing to AWCC and any excess will be deemed to be invested with AWCC and will earn a daily rate of interest that is equal to the interest income earned by AWCC on those funds. Upon the request of that Company, AWCC shall execute one or more promissory notes in favor of the Company, in form and substance substantially similar to the Promissory Note attached as Exhibit A to the Agreement as evidence of such investment.

EXHIBIT A
PROMISSORY NOTE
FOR SHORT-TERM LOANS

\$ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of

Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day
and year first written above.

[BORROWER]

By: _____
Name and Title:

EXHIBIT B
PROMISSORY NOTE
FOR LONG-TERM BORROWINGS

\$ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at _____ or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

[BORROWER]

By: _____
Name and Title:

C

Arizona-American Water Company

	@ Acquisition					
	2000	2000	2001	2002	2003	2004
Assets						
Intangibles & Land		0	0	0	0	0
Net PP&E - Less Intangibles & Land	166,969,776	229,834,125	245,406,417	256,001,916	266,853,012	274,706,061
CWIP	28,260,859	650,000	0	0	300,000	100,000
Accum. Deprec.	(44,856,717)	(54,608,643)	(60,655,909)	(67,216,776)	(74,042,006)	(81,108,367)
	150,373,918	175,875,482	184,750,508	188,785,140	193,111,006	193,697,694
Value of Non-Reg. Assets		375,459	268,836	162,213	55,590	0
Acq. Premium	71,151,139	71,151,139	71,151,139	71,151,139	71,151,139	71,151,139
Accumulated Amortization of Prem.	0	(55,000)	(165,000)	(287,500)	(423,900)	(575,900)
Net Premium	71,151,139	71,096,139	70,986,139	70,863,639	70,727,239	70,575,239
Current Assets:						
Cash & Equivalents		37,470	36,985	31,215	38,177	35,683
Accounts Receivable	3,093,590	3,457,078	3,636,922	3,829,781	4,019,615	4,214,808
Accounts Receivable Other	317,755	575,156	599,338	627,254	656,346	686,658
Reserve for Doubtful Accounts	(32,682)	(34,450)	(36,166)	(37,968)	(39,859)	(41,845)
Materials & Supplies	9,588	46,167	46,671	47,199	47,754	48,337
Special Deposits		0	0	0	0	0
Prepayments	136,343	143,160	150,318	157,834	165,726	174,012
Other Current Assets	0	154,113	77,473	46,884	47,960	49,079
Total Current Assets	3,524,594	\$4,378,694	\$4,511,541	\$4,702,200	\$4,935,719	\$5,166,731
Other Assets:						
Preliminary Survey and Investigation	688,863	688,863	688,863	688,863	688,863	688,863
Clearing Assets	0	0	0	0	0	0
Deferred Debits	4,477,998	4,557,317	4,577,317	4,597,317	4,617,317	4,637,317
Unamortized Debt Expense	399,786	379,797	359,807	339,818	319,829	299,840
Other Assets	13,946	1,043,135	961,873	875,609	789,344	703,077
Regulatory Assets	679,756	756,914	754,514	751,994	749,474	746,954
Total Other Assets	6,260,349	\$7,426,026	\$7,342,374	\$7,253,601	\$7,164,827	\$7,076,051
Total Assets	231,310,000	\$259,151,799	\$267,859,398	\$271,766,793	\$275,994,381	\$276,515,715
Liabilities and Shareholder Equity						
Current Liabilities:						
Accounts Payable	0	251,965	(18,719)	17,281	25,281	32,281
Income Taxes Accrued	0	123,601	117,753	123,600	123,600	123,600
Interest Accrued	0	141,231	154,916	154,916	154,916	154,916
Other Current and Accrued Liabilities	0	594,790	1,482,557	1,890,714	2,326,037	2,735,043
Total Current Liabilities	0	\$1,111,587	\$1,736,507	\$2,186,511	\$2,629,834	\$3,045,840
Long-Term Debt	10,635,000	17,882,567	17,869,338	17,855,229	17,840,183	17,824,133
Acq. Debt	128,151,000	\$128,554,098	132,457,390	133,591,942	134,920,895	134,053,352
Non-Current Liabilities:						
Customer Adv. For Construction	0	258,705	285,105	312,005	338,905	365,805
Deferred Income Taxes	0	2,195,052	4,099,262	5,991,373	7,881,524	9,748,819
Other Deferred Credits	0	683,485	656,461	629,437	602,413	575,389
Contributions in Aid of Construction	0	8,411,087	7,904,507	7,397,927	6,891,347	6,384,767
Total Non-Current Liabilities	0	\$11,548,329	\$12,945,335	\$14,330,742	\$15,714,189	\$17,074,780
Total Liabilities	138,786,000	\$159,096,581	\$165,008,570	\$167,964,424	\$171,105,101	\$171,998,105
Shareholder Equity:						
Equity	92,524,000	100,055,218	102,850,828	103,802,369	104,889,279	104,517,610
Total Shareholder Equity	92,524,000	\$100,055,218	\$102,850,828	\$103,802,369	\$104,889,279	\$104,517,610
Total Liabilities and SHE	231,310,000	\$259,151,799	\$267,859,398	\$271,766,793	\$275,994,380	\$276,515,715
Check	0	\$0	\$0	(\$0)	(\$0)	\$0
Interest Calculation						
Interest related to Acquired Debt - Regulated	771,038	771,038	771,038	771,038	771,038	771,038
Interest related to Acquired Debt - Non-Regulated	0	0	0	0	0	0
Interest Related to Acquisition Debt	4,645,474	9,305,560	9,461,666	9,644,288	9,733,590	9,750,316
TOTAL INTEREST	5,416,511	10,076,597	10,232,704	10,415,326	10,504,628	10,521,354
	1	1	1	1	1	1

Income Statement

Arizona-American - with Synergies

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
1 Operating Revenues						
2 Revenues at Present	38,295,467	39,847,057	41,686,356	43,566,712	45,293,416	47,020,120
3 Rate Increases - Current AZ-AM	0	0	851,113	1,015,763	1,176,143	1,336,523
4 Other	270,897	264,678	258,014	255,014	253,014	251,014
5 Rate Increases - Proposed Citizens	0	0	7,800,000	10,800,000	14,000,000	17,200,000
6 Total Revenues	38,566,364	40,111,735	50,595,483	55,637,489	60,722,573	65,807,657
7 Operation Expense	0	0	0	0	0	0
8 Labor	4,452,163	5,005,844	5,183,636	5,368,955	5,561,039	5,753,123
9 Purchased Water	749,188	787,505	832,085	876,704	916,874	957,044
10 Fuel & Power	4,086,587	4,234,222	4,409,831	4,587,381	4,749,423	4,911,465
11 Chemicals	204,314	213,636	224,410	235,291	245,226	255,161
12 Waste Disposal	994,435	1,024,268	1,054,996	1,086,646	1,119,246	1,151,846
13 Management Fees	1,552,709	459,910	484,564	510,245	536,989	563,733
14 Group Insurance	704,214	816,648	889,729	954,156	1,024,895	1,095,634
15 Pensions	10,117	10,203	10,560	10,930	11,313	11,696
16 Regulatory Expense	28,313	30,065	30,065	30,065	30,065	30,065
17 Insurance, Other Than Group	190,134	118,219	127,871	137,860	148,198	158,536
18 Customer Accounting	632,805	480,243	538,183	600,207	661,860	723,513
19 Rent Expense	42,711	25,829	26,786	27,777	28,802	29,827
20 General Office Expense	156,760	159,474	163,522	167,682	171,954	176,226
21 Miscellaneous	1,738,524	2,026,718	2,085,887	2,146,797	2,209,494	2,272,191
22 Total Operation Expense	15,542,974	15,392,783	16,062,124	16,740,695	17,415,377	18,090,059
23 Maintenance Expense						
24	0	0	0	0	0	0
25 Other	3,864,430	3,977,563	4,093,826	4,213,546	4,336,823	4,460,100
26 Total Maintenance Expense	3,864,430	3,977,563	4,093,826	4,213,546	4,336,823	4,460,100
27 Depreciation	5,909,623	6,998,923	8,306,295	9,561,984	10,663,183	11,764,383
28 Amortization	119,812	174,812	187,312	201,212	193,502	185,792
29 General Taxes	3,344,191	3,844,506	4,456,865	5,058,031	5,563,703	6,069,535
30 State Income Taxes	69,935	62,539	132,716	137,785	142,189	146,593
31 Federal Income Taxes	528,923	(420,777)	2,628,652	3,504,699	4,542,840	5,580,981
32 Tax Saving - Re: Acq. Adj	0	0	0	0	0	0
33 Total Operating Expenses	29,379,887	30,030,349	35,867,791	39,417,952	42,857,618	46,297,444
34 Utility Operating Income	9,186,477	10,081,386	14,727,692	16,219,537	17,864,955	19,510,213

Income Statement

Arizona-American - with Synergies

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
35 Other Income and Deductions	0	0	0	0	0	0
36 Nonoperating Rental Income	6,000	6,000	6,000	6,000	6,000	6,000
37 Dividend Income - Common	0	0	0	0	0	0
38 -Preferred	0	0	0	0	0	0
39 Interest Income	0	0	0	0	0	0
40 AFUDC	13,460	24,085	13,500	17,100	14,800	12,500
41	0	0	0	0	0	0
42 M & J Miscellaneous Income	0	0	0	0	0	0
43 Gain (Loss) on Disposition	0	0	0	0	0	0
44	0	0	0	0	0	0
45 Total Other Income 36-44	19,460	30,085	19,500	23,100	20,800	18,500
46 Miscellaneous Amortization	0	0	0	0	0	0
47 Tax Saving - Re: Acq. Adj.	0	0	0	0	0	0
48 Miscellaneous Other Deductions	31,424	22,633	8,242	8,347	8,453	8,559
49 General Taxes	0	0	0	0	0	0
50 State Income Taxes	(2,032)	(1,325)	(179)	(188)	(196)	(204)
51 Federal Income Taxes	(8,177)	(5,332)	(722)	(756)	(790)	(824)
52 Total Other Deductions 46-51	21,215	15,976	7,341	7,403	7,467	7,531
* 53 Total Other Inc., Net 45 Less 52	(1,755)	14,109	12,159	15,697	13,333	10,969
54 Income Bef Int. Chgs 34 Plus 53	9,184,722	10,095,495	14,739,851	16,235,234	17,878,288	19,521,182
55 Interest Charges	0	0	0	0	0	0
56 Interest on Long Term Debt	8,059,804	10,595,397	10,750,669	10,933,291	11,020,776	11,108,261
57 Amortization of Debt Expense	25,725	12,732	12,732	12,732	12,732	12,732
58 Int. on Short Term Bank Debt	164,694	60,266	56,419	82,166	100,864	119,562
59 Other Interest Expense	180	180	180	180	180	180
60 AFUDC Debt	(11,347)	(20,306)	(13,513)	(17,125)	(14,886)	(12,647)
61 Total 56-60	8,239,057	10,648,269	10,806,487	11,011,244	11,119,666	11,228,088
62 Net Income 54 Less 61	945,665	(552,775)	3,933,364	5,223,990	6,758,622	8,293,095
63 Other Net Income	0	0	0	0	0	0
64 TOTAL NET INCOME	945,665	(552,775)	3,933,364	5,223,990	6,758,622	8,293,095

D

**CERTIFICATE OF RESOLUTION
ARIZONA-AMERICAN WATER COMPANY**

Jan S. Driscoll, Secretary of Arizona-American Water Company ("Company"), hereby certifies that the following is a true and correct copy of a resolution duly adopted at a meeting of the board of directors of said corporation duly held on the 24th day of October, 2000, in accordance with law and the bylaws of said corporation, at which meeting a quorum was at all times present and acting; that the said resolution has not been amended and that it is still in full force and effect:

WHEREAS, the Company entered into an Asset Purchase Agreement among Citizens Utilities Company ("Citizens") and Certain of its Affiliates and American Water Works Company, Inc. dated as of October 15, 1999 (the "Asset Purchase Agreement");

WHEREAS, on March 24, 2000, Citizens and the Company filed a joint application with the Arizona Corporation Commission ("ACC") requesting authority for the transfer of Citizens' Arizona water and wastewater utility plant, assets and certificates of convenience and necessity ("Citizens' Assets") in accordance with the Asset Purchase Agreement;

WHEREAS, the application is pending before the ACC and a decision on the application is expected by the end of December, 2000;

WHEREAS, this Board previously approved a Financial Services Agreement with American Water Capital Corp. ("AWCC"), a wholly-owned subsidiary of American Water Works Company, Inc., whereby AWCC will become the lender for the Company for all short-term and long-term financing required by the Company;

WHEREAS, the officers of the company have previously been authorized to obtain all required regulatory approvals for the Financial Services Agreement and the actions contemplated by it, and to engage counsel and experts necessary to obtain such approvals;

WHEREAS, it is appropriate for the Company to take the steps necessary to finance the acquisition of Citizens' Assets;

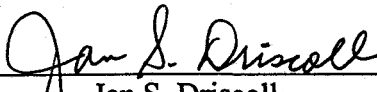
WHEREAS, pursuant to the terms of the Asset Purchase Agreement, the purchase price will be \$231,310,000, which includes the assumption of \$10,635,000 of long-term debt in the form of outstanding industrial development revenue bonds and related loan agreements, which purchase price will be adjusted based on increases or decreases in the Statement of Net Assets for Citizens after June 30, 1999;

WHEREAS, the officers of the Company anticipate that, based on growth occurring in certain of Citizens' territories, the actual purchase price will increase by up to \$70,000,000 by the time the acquisition closes;

RESOLVED, that the President, any Vice President, or the Treasurer or any Assistant Treasurer of this Company, be and hereby is, authorized and empowered in the name and on behalf of this Company to borrow from time to time from AWCC sums which in the aggregate will not exceed \$180,000,000 for the purpose of completing the terms and conditions of the Asset Purchase Agreement, such loans to mature at such times and bear interest at such rates as may be approved by the officer making the loans; and, as evidence of such loans, to make, execute and deliver one or more notes or other written obligations of this Company which will be sufficiently executed by this Company if signed in its name by its President, or one of its Vice Presidents or its Treasurer or one of its Assistant Treasurers.

RESOLVED, that this authorization to borrow funds to complete the Asset Purchase Agreement is in addition to any other current authorizations for the Company to borrow funds and does not in any way affect or negate any other such authorizations.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the corporate seal of Arizona-American Water Company this 8th day of November, 2000.



Jan S. Driscoll
Secretary